Swing Stock Trading using Value Investing : A new innovative way to create passive monthly income while investing in the stock market

This book provides Eduardo's proprietary strategy for trading in the stock market and mastering growth stocks.

Eduardo Arroyo

Table Of Contents

Chapter 1: Introduction 2

Chapter 2: Swing Trading Basics 12

Chapter 3: Swing Trading Strategies for Earnings Reports 18

01

Chapter 1: Introduction

My Stock Swing Trading Strategy

I thought I would start this guide explaining my stock swing trading strategy first because it is the reason most of you are here. A proper swing trading strategy can bring passive monthly income without much work or having to look at graphs constantly. Day trading involves buying stocks and trading your positions within the same day which makes predicting the outcome hard and puts us at great risk of losing money. Let's face it nobody can truly predict where a stock is heading during the short term, so my strategy involves buying stocks we would like to keep long term (let's say five or ten years). Famed investor Warren Buffet once said "If you aren't willing to own a stock for ten years, don't even think about owning it for ten minutes" because he encourages value investing. Value investing is an investment strategy that involves buying stocks that appear to be undervalued by the market relative to their intrinsic or true worth. The core belief is that the market price and the intrinsic value can diverge due to short-term factors, investor sentiment, or market noise, and will eventually converge over time. So my strategy for swing trading can be called something like a mix between value investing and swing trading. The core principle of my strategy is if the stock goes down near term, we don't stress about it or panic sell because we bought with the mentality of holding for a long time. Think in terms of you are stepping into a bus and you only sell when the bus goes up a certain percentage that you targeted before buying the stock. For example, let's say you selected Microsoft (MSFT) as one of the stocks you want to use for my strategy and you bought $6,500 worth of Microsoft and have a target of selling when it makes you at least $500 profit, so you set to sell the stock when it goes up roughly 8%. When you buy the stock, you can set the trade up so it executes the sell automatically when the stock goes up to the target price. You can do this by setting up what is called a "limit order" where you can command the brokerage to sell the shares at a minimum price or higher. Refer to Image One below where I illustrate how to do this on Robinhood. You can also just buy the stock and do the sell manually later when the stock gives you a profit amount that you like.

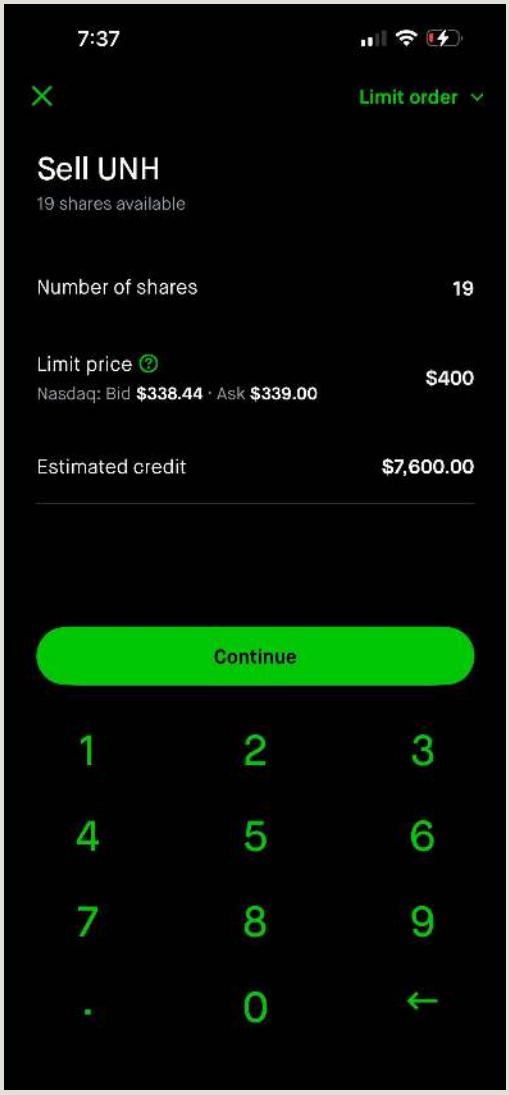


Image One: How to setup a limit order

You can decide how many stocks you are going to buy (or based in our terminology how many buses you are going to ride!) based on your budget and how much you want to invest in each stock. Personally, I started with just six buses (stocks) and I put $6,500 into each for a total investment budget of $39,000. Do I put all of my money into this investment strategy? No, I just allocated a percentage (most of my budget is still on stocks I am holding and in my retirement account) and ideally you will follow my same approach. Obviously, the more money you have available to implement this strategy the more money you can make. You could start with just one bus, but I recommend you invest at least $6,500 on each bus. An ideal starting point would be to start with three and then when you get more comfortable, you can then ride more buses at the same time.

In summary, these are the critical steps to follow in order to implement my swing stock trading strategy effectively:

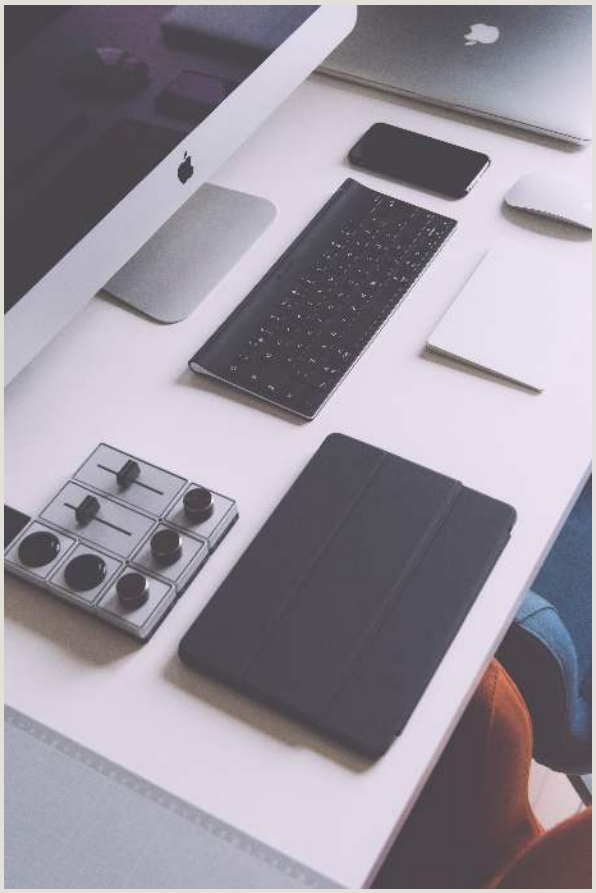
1) Create a group of stocks you want to use the strategy on. Remember these should be stocks that you believe have good long term growth potential. Select companies with a record of performing well over the years and ideally that you use its products or services. For example, if you like to take your kids to Disney every year, Disney may be a solid stock to pick because it also has a strong track record of performing well over long periods of time. If you like Costco and go every Sunday, this is another company and so forth. Avoid startups or companies that haven't been around many years. Also pay close attention to price to earnings ratios (P/E) since it is a strong indicator if a stock is at a good value or may be currently over hyped. I would say a good price to earnings ratio for a stock is anywhere from 1-35 with lower being better. When creating the group of stocks to watch, I would say start with ten, ideally twenty of carefully selected stocks.

Image Two: Illustration of how my swing trading system works

Most brokerage accounts allow you to create a watch list and you could make one and name it "Swing Trading Stocks" or "Buses WOM" or something that you like. Having a big list is convenient since you can track all the stocks in one simple to follow list and if one stock seems at a good price, you can jump in quickly. As promised, I will share here what stocks I am currently using myself so you can copy me if you want. Even if you use my stocks which is easier at first, I will recommend that you still try to pick at least one yourself to go through the exercise and learn how to pick them.

The old saying "Give a man a fish, and you feed him for a day; teach a man how to fish, and you feed him for a lifetime" applies here even though you can probably eat for much more than one day with these. Without further ado here is the list of ten stocks I am recommending to start your list with 1)Microsoft(MSFT) 2)Disney(DIS) 3) United Healthcare (UNH) 4)Meta Platforms (META) 5)Nike (NKE) 6) Boeing (BA) 7) Costco (COST) 8) Amazon (AMZN) 9)Bank of America (BAC) 10) Sony (Sony)

*Disclaimer this is not investing advice. You should do your own research to determine if this stock or bus is right to buy at that particular time by doing your own analysis (P/E etc.) but these are what I generally consider good long-term investments at almost any time but please do your own research before investing.



2) Create a target. Based on how much money you have available to invest and how much money you aim to make in profit a month, you can create target sell prices for each stock before investing. Personally, I like to invest $6,500 into each stock or bus and set my target sell price until I can get at least $500 profit. The higher your profit target for each stock or bus ride the more it will likely take to get there, so it is a matter of choice. Stocks can go up very quickly, so it is possible to make much more than this target if you decide to aim higher. For example, let's say that we want to get into Disney (DIS) stock today- Disney shares currently trade at a $111.36 price, and we want to invest $6,500. After placing our order, we round up our numbers and end up with 59 shares or $6,570.24 invested at current market price. For this trade, we aim to make at least $500 profit so we set the target sell to get $7,070.24 or a stock price of $119.84 (we can do this automatically using a limit trade or do this manually when we see the stock price has reached the target). I computed the target price for the sell to be $119.84 by taking the $7,070.24 and dividing it by the quantity of shares we bought (59).

3) What do with the money when you sell and make profits? What I personally do is that I pay myself a salary every month from my brokerage account based on profits that I made during that month and any dividends I may have received. I also include interest from the cash in my brokerage account. You may decide however to reinvest your profits and that is perfectly fine too. Remember to get into another stock or bus as soon as possible to keep the ball rolling and put yourself on your way towards another successful trade. Sometimes I just end up buying the same stock I sold if there is a little drop on price after I sell and the P/E still looks good but is all a matter of preference. You can always go back to your list and pick another stock to buy.

4) This business model is completely scalable. The more money you invest, the more profit you can make. You can start small and scale up as you see profits grow and remember what makes this strategy great is that you are buying to hold these stocks so if you have that mentality and a stock goes down don't panic sell and just hold the stock. Most trading strategies involve taking losses when the stock goes down, this strategy is different since we are going with the mindset that we are going to hold these stocks long term. That is why I emphasize the stock selection process to be so strict because I want to ensure that you don't have losses over the long term but are just moving money on stocks that are good long-term investments.

5) Taxes. Get in contact with your accountant to see what the approximate tax is percentagewise for capital gains so you can estimate the taxes you will owe at your country. In the United States for example, the tax on short term capital gains (less than one year from purchase to sale) is about 25% so I always set the money apart from profits for taxes into a separate account.

6) Recommended brokerages to use? I like to use E-trade(from Morgan Stanley) and Robinhood. Depending on what country you live there may be other popular brokage providers as these are USA based. You can select you own brokerage based on preference, but you must verify that they allow you to invest in the USA stock market. Some brokerages don't allow you to do short term trading so please verify these rules before selecting.

Understanding Growth Stocks

An alternative to Value Investing can be investing on growth stocks. Growth stocks represent companies expected to grow at an above-average rate compared to their industry or the overall market. Investors are typically attracted to these stocks due to their potential for substantial capital appreciation. Unlike value stocks, which may offer dividends and are often undervalued, growth stocks reinvest earnings into the business for expansion, making them appealing for those looking to capitalize on future gains.

One key aspect of trading growth stocks is the importance of understanding market dynamics, particularly during earnings reports. Earnings announcements can cause significant volatility, presenting both risks and opportunities for swing traders.

Ultimately, understanding growth stocks and mastering swing trading techniques requires continuous learning and adaptation. Investors must stay informed about market trends, company performance, and economic indicators. By combining knowledge of growth stocks with effective swing trading strategies, investors can position themselves to take advantage of opportunities and achieve long-term financial success.

Characteristics of Growth Stocks

Growth stocks are defined by their potential for substantial increases in earnings and revenue, often outpacing the general market. One key characteristic of growth stocks is their historical performance, which often shows rapid growth in sales and earnings. Investors can analyze past earnings reports and revenue trends to identify stocks that have consistently outperformed their peers. This performance can be a strong indicator of future potential, especially when paired with technical analysis, which helps traders identify optimal entry and exit points.

Another important characteristic is the market sentiment surrounding growth stocks. These stocks can be more volatile than their value counterparts, especially during earnings seasons or market fluctuations. Understanding this volatility is essential for swing traders, as they can capitalize on price movements while managing the associated risks effectively.

Furthermore, growth stocks often belong to innovative sectors, such as technology or biotechnology, where rapid advancements can lead to significant market opportunities. Swing traders focusing on these sectors should pay attention to news releases, product launches, and competitive developments that could impact stock prices. This proactive approach allows investors to make informed decisions and adjust their strategies accordingly.

Why Swing Trading Growth Stocks?

Swing trading growth stocks offers investors the unique opportunity to capitalize on short-term price movements while focusing on companies with strong potential for long-term growth. This approach allows traders to benefit from the volatility associated with growth stocks, which often exhibit significant price fluctuations due to market sentiment and earnings reports. By employing swing trading techniques, investors can effectively navigate these ups and downs, maximizing profit potential while minimizing risk.

One of the key advantages of swing trading growth stocks is the ability to utilize technical analysis to identify entry and exit points. Traders can analyze chart patterns, moving averages, and various indicators to make informed decisions based on historical price movements. This systematic approach not only enhances the likelihood of successful trades but also empowers investors to make data-driven decisions, rather than relying solely on intuition or speculation.

Earnings reports play a crucial role in the performance of growth stocks, and swing trading strategies can be tailored to take advantage of the volatility surrounding these events. By anticipating market reactions to earnings announcements, investors can position themselves to capitalize on sharp price movements that often occur in response to positive or negative results. This proactive strategy can lead to substantial gains, particularly in a market environment where growth stocks are under constant scrutiny.

Moreover, swing trading is especially beneficial in volatile markets, where uncertainty can create both challenges and opportunities. Growth stocks tend to be more sensitive to market fluctuations, providing traders with the chance to profit from rapid price changes.

02

Chapter 2: Swing Trading Basics

What is Swing Trading?

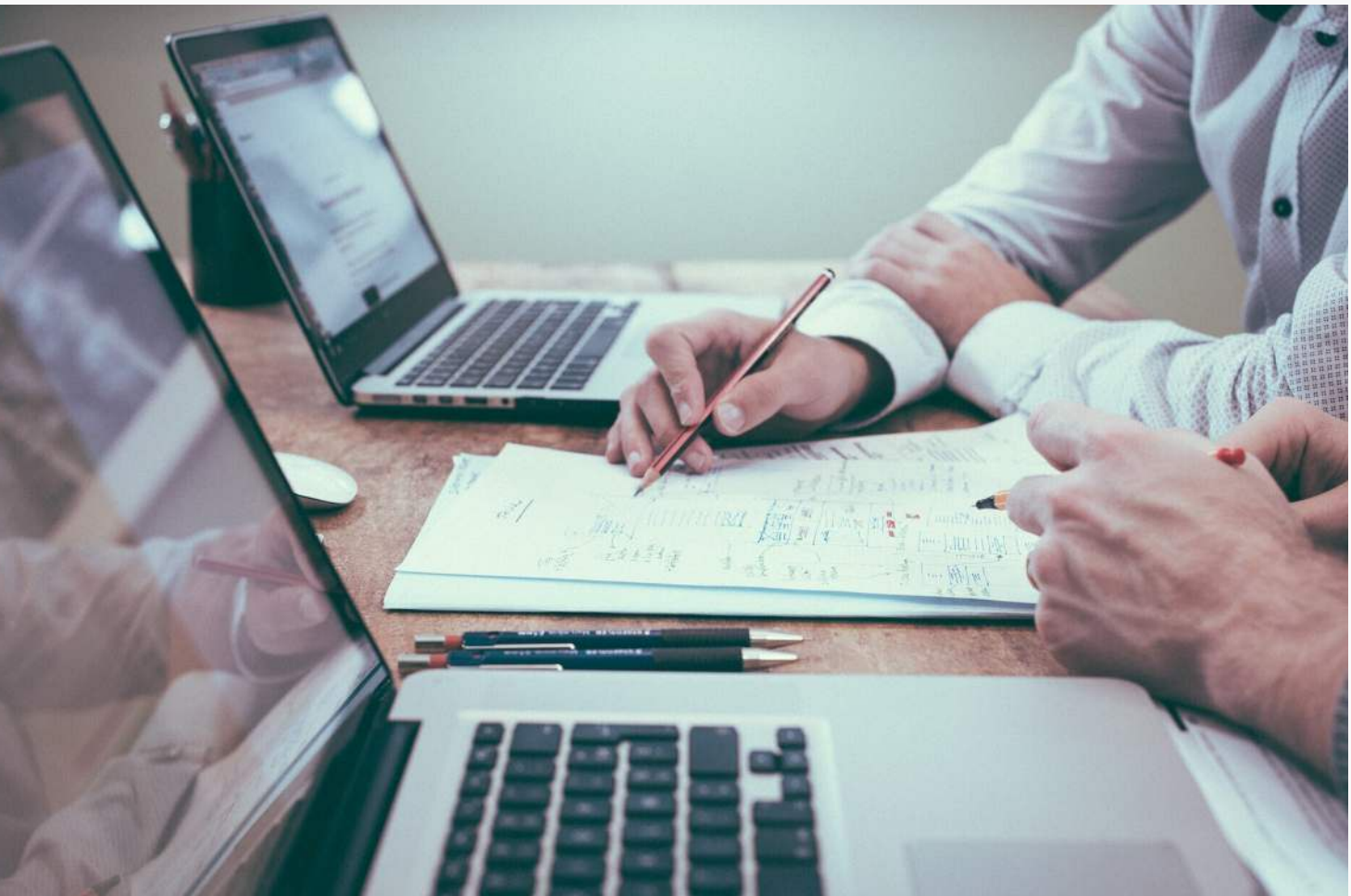
Swing trading is a trading strategy that aims to capture short- to medium-term gains in a stock over a period of a few days to several weeks. This approach appeals to investors who prefer to hold positions for a limited duration, allowing them to take advantage of price fluctuations without the long-term commitment. By focusing on the daily and weekly price movements, swing traders can benefit from trends and reversals that may occur in the market.

Swing trading is particularly effective during earnings reports, as stock prices can experience significant volatility in reaction to a company's financial performance. Traders often position themselves ahead of earnings announcements to capitalize on the rapid price movements that typically follow. Understanding how to interpret earnings results and market reactions can greatly improve a trader's ability to profit from these events.

Key Principles of Swing Trading

Swing trading is a dynamic approach that allows investors to capitalize on short- to medium-term price movements in growth stocks. The key principle here is to identify trends and reversals using technical analysis, which provides insights into potential price movements based on historical data. By focusing on indicators like moving averages and momentum oscillators, traders can make informed decisions that align with their trading strategies. This method not only enhances the potential for profit but also minimizes the risks associated with longer-term investments.

Another essential principle of swing trading is timing. Investors must develop a keen sense of market timing to enter and exit trades effectively. This involves analyzing earnings reports and market conditions that can significantly impact stock prices. By executing trades around earnings announcements, traders can leverage volatility for potential gains, capturing price movements that occur in reaction to these reports.



For beginners, mastering swing trading requires a combination of education and practice. New investors should familiarize themselves with chart patterns and technical indicators that are essential for making informed trading decisions. As they progress, they can explore more advanced strategies, such as using Fibonacci retracements and other sophisticated tools to enhance their trading prowess. Continuous learning and adaptation to market changes are vital for long-term success in swing trading.

Finally, the psychology of trading plays a significant role in swing trading success. Investors must cultivate discipline and emotional resilience to stick to their trading plans, especially during periods of market volatility. This psychological aspect can often be overlooked, but maintaining a clear mindset helps traders make rational decisions rather than impulsive ones. By understanding their emotional triggers and developing a disciplined trading routine, swing traders can improve their performance and achieve their investment goals.

Differences Between Swing Trading and Day Trading

Swing trading and day trading are two popular trading strategies that cater to different styles and objectives of investors. While both techniques involve buying and selling stocks with the aim of making a profit, they differ significantly in terms of time commitment, trading frequency, and overall strategy. Swing traders focus on capturing short to medium-term price movements over several days or weeks, while day traders capitalize on intraday price fluctuations, typically closing all positions by the end of the trading day.

One primary distinction between swing trading and day trading is the amount of time investors dedicate to each strategy. Swing traders often analyze charts and trends over a longer time horizon, which allows them to make informed decisions based on technical analysis and fundamental factors. In contrast, day traders must constantly monitor the market, reacting quickly to price movements and news events, which requires a high level of focus and time investment throughout the trading day.

Additionally, the types of trades executed by swing traders and day traders also differ. Swing traders may hold onto their positions for days or weeks, using strategies tailored around earnings reports, market trends, and technical indicators. Conversely, day traders frequently execute numerous trades in a single day, often relying on momentum and market news to make fast decisions. This difference in trading frequency impacts the overall transaction costs and potential returns associated with each strategy.

In conclusion, both swing trading and day trading offer distinct advantages and challenges for investors. Understanding these differences is crucial for developing a trading strategy that aligns with individual goals, risk tolerance, and market conditions. Whether one chooses to swing trade or day trade, adapting the approach to fit personal circumstances will ultimately lead to more informed investment decisions and potentially greater success in the stock market.

03

Chapter 3: Swing Trading Strategies for Earnings Reports

Importance of Earnings Reports

Earnings reports play a crucial role in the world of growth stocks and swing trading. They provide investors with valuable insights into a company's financial health, operational performance, and future growth potential. For swing traders, these reports can serve as critical indicators that influence short-term price movements. Understanding how to interpret these reports effectively can give traders an edge, allowing them to make informed decisions in volatile markets.

Analyzing earnings reports involves looking beyond the headline numbers. While revenue and earnings per share (EPS) are important, it's essential to consider other factors such as guidance, market reaction, and historical performance. Positive surprises in earnings can lead to significant price jumps, while disappointing results can cause sharp declines. Therefore, swing traders must develop a keen sense of how to read these reports and anticipate market sentiment.

In the context of swing trading strategies, earnings reports can create unique opportunities. Traders often look to capitalize on the increased volatility surrounding these events. By employing technical analysis, investors can identify patterns and key levels that may indicate potential breakouts or reversals following earnings announcements. This approach allows swing traders to align their strategies with the company's performance metrics and market expectations.

For beginners in swing trading, understanding the importance of earnings reports is foundational. They not only inform traders about a company's current status but also shape the broader market trends that can affect multiple stocks. By incorporating earnings analysis into their trading plans, novice investors can enhance their decision-making process and reduce the risks associated with trading in unpredictable environments.

Advanced swing traders often utilize chart patterns to capitalize on the volatility generated by earnings reports. Recognizing formations such as flags, pennants, or double tops can provide insights into potential price movements post-announcement.

Pre-Earnings Trading Strategies

Pre-earnings trading strategies are essential for investors looking to capitalize on the volatility that often accompanies earnings reports. These strategies focus on making informed decisions based on market sentiment and technical analysis, allowing traders to position themselves advantageously before the earnings announcement. Understanding the stock's historical performance during earnings seasons can provide valuable insights and help in forecasting potential price movements.

One effective approach is to analyze the stock's chart patterns leading up to the earnings date. By identifying trends and key support or resistance levels, traders can establish their entry and exit points. Additionally, employing technical indicators such as moving averages and the Relative Strength Index (RSI) can enhance decision-making processes, enabling investors to gauge whether a stock is overbought or oversold before earnings are released.

Swing trading during this period requires a keen awareness of market sentiment, as traders must anticipate how investors might react to the earnings report. Monitoring news releases, analyst ratings, and overall market conditions can aid in predicting potential price movements. A well-timed entry into a position, based on these factors, can yield significant returns if the earnings report meets or exceeds expectations.

As earnings reports can lead to unpredictable market reactions, it is vital for traders to remain disciplined and stick to their predetermined strategies. By combining technical analysis with a solid understanding of market psychology, investors can enhance their chances of success in pre-earnings trading. Ultimately, a well-structured approach can transform the inherent risks of trading around earnings into rewarding opportunities for growth stock investors.

Post-Earnings Trading Strategies

Post-earnings trading strategies are essential for investors looking to capitalize on the volatility that often follows a company's earnings report. This period can present both opportunities and risks, making it critical for traders to employ sound techniques. Understanding the market's reaction to earnings announcements is key, as stocks may experience significant price swings based on the results and guidance provided by the company. By analyzing historical trends and employing technical analysis, investors can better position themselves to take advantage of these movements.

Another approach involves trading on the news by monitoring the stock's price action immediately after the earnings release. Quick decision-making is critical during this time, as stocks can quickly reverse direction. Investors should look for key technical indicators, such as moving averages and support/resistance levels, to guide their trades. For those who prefer a more cautious approach, waiting for confirmation signals before entering a trade can help reduce the risk of false breakouts or reversals.

Advanced swing traders may also want to analyze chart patterns that emerge following earnings reports. Patterns such as flags, pennants, and triangles can indicate potential continuation or reversal moves. Recognizing these patterns early allows traders to align their positions with the prevailing market momentum.

In summary, mastering post-earnings trading strategies requires a blend of technical analysis and market awareness. By being prepared to adapt to the rapidly changing market conditions that follow earnings announcements, investors can leverage their knowledge of growth stocks and swing trading to achieve favorable outcomes. As with all trading strategies, continuous learning and practice are vital for long-term success in this dynamic arena.

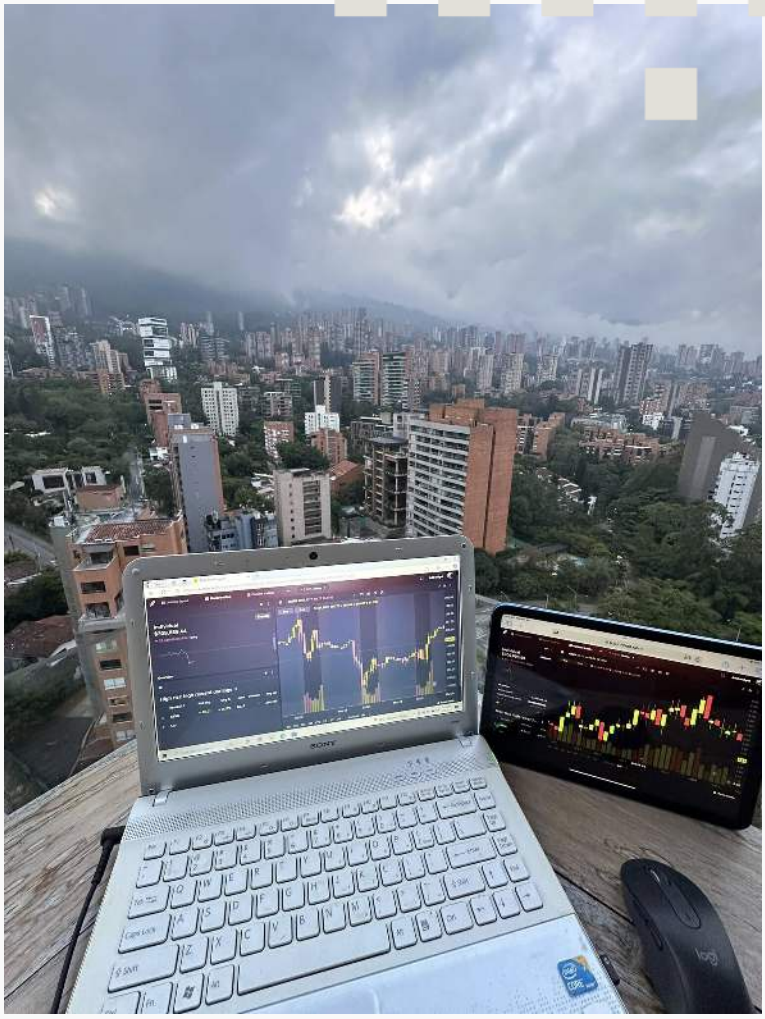
Market volatility is a crucial concept that every investor should comprehend, particularly those involved in growth stocks and swing trading. Understanding market fluctuations can greatly influence investment decisions and strategies, especially when navigating the unpredictable currents of the stock market. Volatility often reflects the degree of variation in trading prices over a certain period, and it can be driven by various factors including economic indicators, political events, and market sentiment.

For swing traders, recognizing patterns of volatility helps in timing trades more effectively. This involves analyzing historical data and technical indicators to predict potential price movements. By leveraging technical analysis, investors can identify support and resistance levels that indicate where a stock might rebound or fall, providing critical insights during volatile market conditions.

Understanding Market Volatility

Moreover, swing trading around earnings reports presents unique challenges and opportunities due to the heightened volatility that often accompanies these releases. Investors must be cautious yet bold, balancing the potential for significant gains against the risks of sudden price swings. Developing strategies that incorporate volatility indicators can help traders make informed decisions during these pivotal moments in the market.

In summary, a solid understanding of market volatility equips swing traders with the tools to navigate both opportunities and risks effectively. Ultimately, mastering these concepts will enable traders to make smarter, more calculated decisions, setting the stage for long-term success in growth stock investments.



Mastering Growth...

"Swing Stock Trading using Value Investing" offers a strategic approach to navigating the dynamic world of growth and value stocks through effective swing trading. By emphasizing strict stock selection, understanding market sentiment, and leveraging technical analysis, this guide empowers investors to capitalize on short- to medium-term price movements and manage risks effectively. With insights into trading around earnings reports and the volatility of innovative sectors, readers will gain the tools needed to make informed, data-driven investment decisions.